

SPEARFISH SCHOOL DISTRICT NO. 40-2
SPEARFISH, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS
JUNE 30, 2011

SPEARFISH SCHOOL DISTRICT NO. 40-2

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-11
<i>Government-wide Financial Statements:</i>	
Statement of Net Assets	12
Statement of Activities	13
<i>Fund Financial Statements:</i>	
Governmental Funds Balance Sheet	14
Reconciliation of Governmental Funds Balance Sheet to Government-wide Statement of Net Assets.	15
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances	16-18
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to Government-wide Statement of Activities	19
Proprietary Fund Balance Sheet	20
Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Assets.	21
Proprietary Fund Statement of Cash Flows	22
Statement of Fiduciary Net Assets	23
Statement of Changes in Fiduciary Net Assets.	24
Notes to Financial Statements	25-41
<i>Required Supplementary Information:</i>	
Budgetary Comparison Schedule – Budgetary Basis - General Fund.	42-43
Budgetary Comparison Schedule – Budgetary Basis - Capital Outlay Fund	44-45
Budgetary Comparison Schedule – Budgetary Basis - Special Education Fund.	46
Budgetary Comparison Schedule – Budgetary Basis - Pension Tax Fund	47
Schedule of Funding Progress and Employer Contributions for Retiree Health Insurance Coverage	48
Notes to Required Supplementary Information	49
<i>Single Audit Section:</i>	
Summary Schedule of Prior Audit Findings.	50
Schedule of Findings, Questioned Costs, and Corrective Action Plan.	51-52

SPEARFISH SCHOOL DISTRICT NO. 40-2

TABLE OF CONTENTS (CONTINUED)

	<u>PAGE</u>
Schedule of Expenditures of Federal Awards	53-54
<i>Other Reports:</i>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	55-56
Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	57-58



-1-
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INDEPENDENT AUDITOR'S REPORT

School Board
Spearfish School District No. 40-2
Lawrence County, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District), Lawrence County, South Dakota, as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 13, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 11, and the required supplementary information on pages 42 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of the District. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

February 13, 2012

SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

This section of Spearfish School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2011. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net assets from governmental and business-type activities increased \$2,370,307 primarily due to an increase in property tax revenue.
- The total cost of the District's programs decreased by less than one percent.
- The general fund reported a \$4,128,093 current year fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts -- management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short-term, as well as what remains for future spending.
 - Proprietary fund statements offer short and long-term financial information about the activities that the school operates like businesses. The only proprietary fund operated by the District is the Food Service Fund.
 - Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

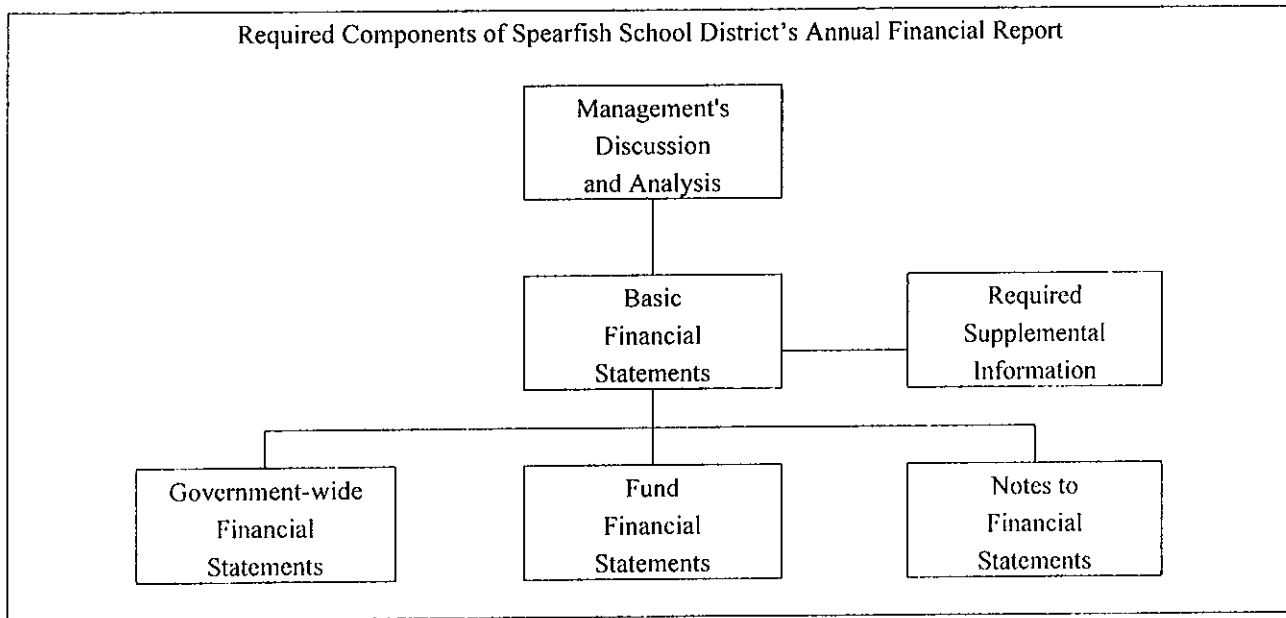
The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1



Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the District are reported in two categories:

- **Governmental Activities** - This category includes the District's basic instructional services (elementary, high school educational programs, etc.), support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.
- **Business-Type Activities** - The District charges a fee to students to help cover the costs of providing lunch services to all students. The Food Service Fund is the only business-type activity of the District.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds -- not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- State law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes (like the Scholarship Trust).

The District has three kinds of funds:

- Governmental Funds -- Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are greater or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- Proprietary Funds -- Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Fund is the only proprietary fund maintained by the District.
- Fiduciary Funds -- The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

	Government-wide Statements	Fund Statements		
	Entire District government (except fiduciary funds)	Governmental Funds The activities of the District that are not proprietary or fiduciary, such as elementary and high school education programs	Proprietary Funds Activities the District operates similar to private business- food service and internal service	Fiduciary Funds Instances in which the District is the trustee or agent for someone else's resources
Scope				
Required Financial Statements	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows	Statement of Fiduciary Net Assets and Statement of of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short- term and long-term; the District's funds do not currently contain capital assets although they can
Type of Inflow/ Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's combined net assets increased as follows:

Table A-1

	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Current and Other Assets	\$ 23,551,788	\$ 18,456,036	\$ 164,110	\$ 124,452	\$23,715,898	\$ 18,580,488
Capital Assets	23,428,372	29,903,710	35,411	29,091	23,463,783	29,932,801
Total Assets	\$46,980,160	\$ 48,359,746	\$ 199,521	\$ 153,543	\$47,179,681	\$ 48,513,289
Long-Term Liabilities	\$ 15,512,416	\$ 14,217,881	\$ -	\$ -	\$15,512,416	\$ 14,217,881
Other Liabilities	6,481,158	6,738,994	25	25	6,481,183	6,739,019
Total Liabilities	\$ 21,993,574	\$ 20,956,875	\$ 25	\$ 25	\$21,993,599	\$ 20,956,900
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ 15,995,280	\$ 17,099,269	\$ 35,411	\$ 29,091	\$16,030,691	\$ 17,128,360
Restricted	5,926,016	6,674,588	164,085	124,427	6,090,101	6,799,015
Unrestricted	3,065,290	3,629,014	-	-	3,065,290	3,629,014
Total Net Assets	\$ 24,986,586	\$ 27,402,871	\$ 199,496	\$ 153,518	\$25,186,082	\$ 27,556,389
Beginning Net Assets	\$ 23,188,358	\$ 24,986,586	\$ 189,291	\$ 199,496	\$23,377,649	\$ 25,186,082
Change in Net Assets	1,798,228	2,416,285	10,205	(45,978)	1,808,433	2,370,307
Percentage of Change in Net Assets	7.75%	9.67%	5.39%	-23.05%	7.74%	9.41%

This section explains the differences between the current and prior year's assets, liabilities, and changes in net assets.

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of compensated absences payable, early retirement benefits payable, general obligation bonds, other post-employment benefits (OPEB), and capital outlay certificates payable, have been reported in this manner on the Statement of Net Assets. The difference between the District's assets and liabilities is its net assets.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Assets

This section illustrates condensed financial comparison of revenues and expenses and provides explanations for significant differences. The District's revenues totaled \$18,651,671 for the year ended June 30, 2011. (See Table A-2.) Approximately sixty percent of the District's revenue comes from property and other taxes, with another one-fifth coming from state aid. (See Figure A-3). The total cost of all programs and services was \$16,281,364 for the year. The District's expenses cover a range of services, encompassing instruction, support services, and food services. (See Figure A-4)

Figure A-3: Revenue for Fiscal Year 2011

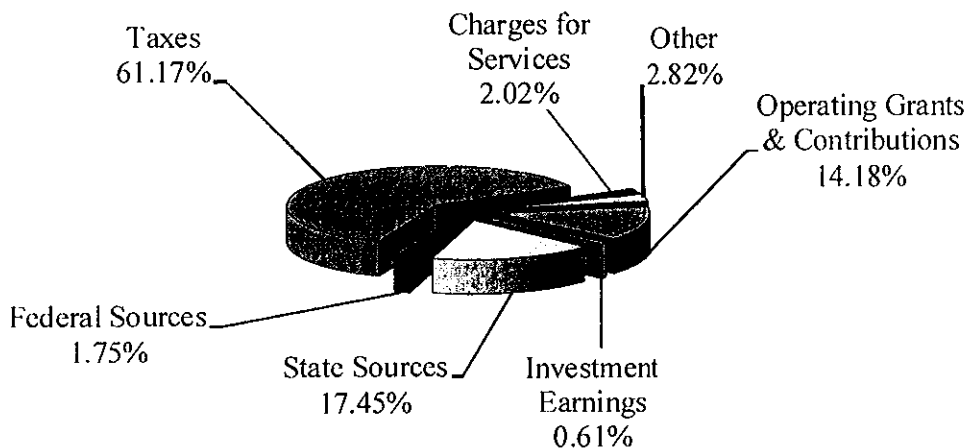
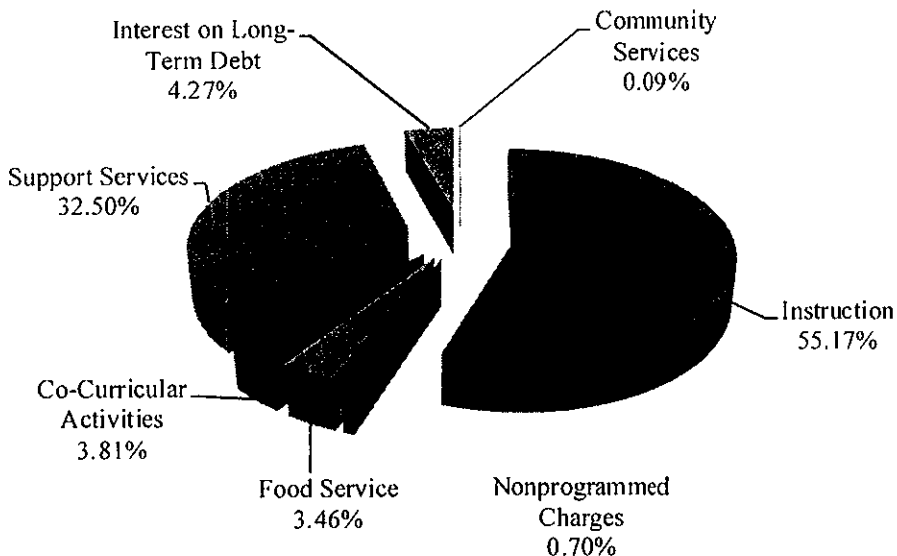


Figure A-4: Expenses for Fiscal Year 2011



SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-2 and the narrative that follows consider the operations of the governmental and business-type activities.

	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2010	2011	2010	2011	2010	2011
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 72,138	\$ 70,514	\$ 307,152	\$ 307,178	\$ 379,290	\$ 377,692
Operating Grants and Contributions	2,082,692	2,361,822	269,741	283,402	2,352,433	2,645,224
Capital Grants and Contributions	510	-	-	-	510	-
<i>General Revenues</i>						
Taxes	11,147,756	11,409,727	-	-	11,147,756	11,409,727
Revenue State Sources	3,656,014	3,254,512	-	-	3,656,014	3,254,512
Revenue Federal Sources	71,144	325,988	-	-	71,144	325,988
Other General Revenues	399,235	524,740	5,017	509	404,252	525,249
Unrestricted Investment Earnings	90,525	111,376	1,708	1,903	92,233	113,279
Transfers	-	75,000	-	(75,000)	-	-
Total Revenues	\$ 17,520,014	\$ 18,133,679	\$ 583,618	\$ 517,992	\$ 18,103,632	\$ 18,651,671
Expenses						
Instruction	\$ 9,143,052	\$ 8,982,138	\$ -	\$ -	\$ 9,143,052	\$ 8,982,138
Support Services	5,561,129	5,292,137	-	-	5,561,129	5,292,137
Community Services	11,507	13,709	-	-	11,507	13,709
Non-programmed Charges	227,925	114,344	-	-	227,925	114,344
Co-Curricular Activities	598,871	620,355	-	-	598,871	620,355
Interest on Long-Term Debt	179,302	694,711	-	-	179,302	694,711
Food Service	-	-	573,413	563,970	573,413	563,970
Total Expenses	\$ 15,721,786	\$ 15,717,394	\$ 573,413	\$ 563,970	\$ 16,295,199	\$ 16,281,364
Change in Net Assets	\$ 1,798,228	\$ 2,416,285	\$ 10,205	\$ (45,978)	\$ 1,808,433	\$ 2,370,307
Ending Net Assets	\$ 24,986,586	\$ 27,402,871	\$ 199,496	\$ 153,518	\$ 25,186,082	\$ 27,556,389

Governmental Activities

While the District experienced normal individual revenue fluctuations during the 2011 year compared to 2010, the total revenues of the District's governmental activities increased by 3.50 percent due mainly to increases in assessed valuations, IRS tax credits from the issuance of bonds to build Creekside Elementary which resulted in reimbursements for interest paid, and a transfer in of \$75,000 from the District's food service program. The decrease in expenditures of 0.03 percent was primarily due to fewer retirees participating in the District's early retirement plan and the District's last single payment on the GO bonds for the middle school building.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)

Business-Type Activities

Revenues of the District's business-type activities decreased 11.24 percent, and expenses decreased by 1.65 percent. The revenue fluctuation was due to a \$75,000 transfer out of the General Fund. The expenditures were less due to lower food costs.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General, Capital Outlay, Special Education, Pension, and the QSCB Redemption Funds showed increases in fund balances due to a rise in valuations. The Bond Redemption Fund decreased due to the Middle School general obligation bonds maturing in December 2010. The Capital Projects Fund decreased as the Creekside Elementary construction project approached completion.

BUDGETARY HIGHLIGHTS

The General Fund budget decreased in 2011 from 2010 to small reductions in most areas to match anticipated revenues.

Net variances were due to an increase in assessed value and fluctuations in taxes.

CAPITAL ASSET ADMINISTRATION

By the end of 2011, the District had invested \$29,932,801 (net of accumulated depreciation) in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-3.) This amount represents a 27.6 percent increase from last year, primarily due to the continued construction of a new elementary school building during fiscal year 2011.

Table A-3

	Capital Assets (Net of Depreciation)			
	Governmental Activities		Business-type Activities	
	2010	2011	2010	2011
Land	\$ 1,645,272	\$ 1,645,272	\$ -	\$ -
Buildings	18,566,059	18,347,380	-	-
Machinery and Equipment	1,232,205	1,177,604	35,411	29,091
Construction in Progress	1,984,836	8,733,454	-	-
Total Capital Assets (Net)	\$ 23,428,372	\$ 29,903,710	\$ 35,411	\$ 29,091

SPEARFISH SCHOOL DISTRICT NO. 40-2

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2011**

LONG-TERM DEBT

Table A-4

Outstanding Debt and Obligations				
	2010	2011	Total Dollar Change	Total Percentage Change
General Obligation Certificates - 2007	\$ 3,655,000	\$ 3,150,000	\$ (505,000)	-14%
General Obligation Bonds - 2005	320,000	-	(320,000)	-100%
General Obligation Bonds (BAB) - 2010	7,955,000	7,560,000	(395,000)	-5%
General Obligation Bonds (QSCB) - 2010	1,500,000	1,500,000	-	0%
General Obligation Bonds (QRZEDB) - 2010	1,545,000	1,470,000	(75,000)	-5%
Early Retirement	247,656	196,191	(51,465)	-21%
Compensated Absences	179,081	193,222	14,141	8%
Net OPEB Obligation	110,679	148,468	37,789	34%
Total Outstanding Debt and Obligations	\$ 15,512,416	\$ 14,217,881	\$ (1,294,535)	-8%

The District made annual payments on prior general obligation bonds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position has shown change. The District experienced an increase in total property valuation of roughly \$30,226,169, or 2.98% from the prior year. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes; however, the total amount which can be levied is limited by the State of South Dakota.

One of the primary sources of revenue to the District is based on a per student allocation from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,804.60 per pupil. Several factors impact the amount of state aid the district received. Due to the increase in assessed value, the increase in per student allocation and the enrollment increase of 19.81 students, the District received an increase in state aid revenue of \$95,179 from the State of South Dakota.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Spearfish School District's Business Office, 525 East Illinois, Spearfish, SD 57783.

SPEARFISH SCHOOL DISTRICT NO. 40-2

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
<u>ASSETS</u>			
Cash and Investments	\$ 12,269,252	\$ 109,261	\$ 12,378,513
Due from State Government (Note 4)	176,826	-	176,826
Taxes Receivable	5,410,252	-	5,410,252
Receivables (Note 3)	214,070	-	214,070
Inventories	-	12,029	12,029
Deferred Charges	170,052	-	170,052
Other Assets	215,584	3,162	218,746
Capital Assets (Note 6):			
Land	1,645,272	-	1,645,272
Buildings, Net of Depreciation	18,347,380	-	18,347,380
Equipment, Net of Depreciation	1,177,604	29,091	1,206,695
Construction in Progress	8,733,454	-	8,733,454
TOTAL ASSETS	\$ 48,359,746	\$ 153,543	\$ 48,513,289
<u>LIABILITIES</u>			
Other Current Liabilities	\$ 1,514,584	\$ 25	\$ 1,514,609
Deferred Revenue	5,224,410	-	5,224,410
Long-Term Liabilities (Note 7 and 10):			
Due Within One Year	1,216,342	-	1,216,342
Due in More than One Year	13,001,539	-	13,001,539
TOTAL LIABILITIES	20,956,875	25	20,956,900
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	17,099,269	29,091	17,128,360
Restricted for:			
Capital Outlay	4,867,333	-	4,867,333
Special Education	724,862	-	724,862
Pension Tax	938,708	-	938,708
Debt Service	143,685	-	143,685
Food Service	-	124,427	124,427
Unrestricted	3,629,014	-	3,629,014
TOTAL NET ASSETS	27,402,871	153,518	27,556,389
TOTAL LIABILITIES AND NET ASSETS	\$ 48,359,746	\$ 153,543	\$ 48,513,289

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
<i>Governmental Activities:</i>						
Instruction	\$ 8,982,138	\$ 23,680	\$ 2,361,822	\$ (6,596,636)	\$ -	\$ (6,596,636)
Support Services	5,292,137	-	-	(5,292,137)	-	(5,292,137)
Community Services	13,709	-	-	(13,709)	-	(13,709)
Non-programmed	114,344	-	-	(114,344)	-	(114,344)
Charges						
Co-Curricular	620,355	46,834	-	(573,521)	-	(573,521)
Activities						
Interest on Long-						
Term Debt *	694,711	-	-	(694,711)	-	(694,711)
	15,717,394	70,514	2,361,822	(13,285,058)	-	(13,285,058)
<i>Business-Type Activities:</i>						
Food Service	563,970	307,178	283,402	-	26,610	26,610
Total Primary Government	\$ 16,281,364	\$ 377,692	\$ 2,645,224	(13,285,058)	26,610	(13,258,448)
General Revenues						
Taxes:						
Property Taxes				11,222,988	-	11,222,988
Gross Receipts Taxes				186,739	-	186,739
Revenue from State Sources:						
State Aid				3,254,512	-	3,254,512
Revenue from Federal						
Sources				325,988	-	325,988
Unrestricted Investment						
Earnings				111,376	1,903	113,279
Other General Revenues				524,740	509	525,249
Transfers				75,000	(75,000)	-
Total General Revenues				15,701,343	(72,588)	15,628,755
Change in Net Assets				2,416,285	(45,978)	2,370,307
Net Assets -- June 30, 2010				24,986,586	199,496	25,186,082
Net Assets -- June 30, 2011				\$ 27,402,871	\$ 153,518	\$ 27,556,389

* The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2011**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund
ASSETS				
Cash and Investments	\$ 4,656,277	\$ 4,611,646	\$ 834,174	\$ 937,118
Taxes Receivable -- Current (Note 2)	2,879,075	1,523,624	711,033	152,378
Taxes Receivable -- Delinquent (Note 2)	38,802	16,395	7,651	1,640
Accounts Receivable	7,295	-	-	-
Notes Receivable (Note 3)	-	206,775	-	-
Due from State Government (Note 4)	166,636	-	10,190	-
Prepaid Expenses	201,830	-	13,754	-
Total Assets	\$ 7,949,915	\$ 6,358,440	\$ 1,576,802	\$ 1,091,136
LIABILITIES				
Contracts Payable	\$ 721,364	\$ -	\$ 122,881	\$ -
Accrued Expenses	249,174	-	33,200	3,302
Deferred Revenue	2,851,284	1,507,502	703,510	150,766
Total Liabilities	3,821,822	1,507,502	859,591	154,068
FUND BALANCES				
Nonspendable - Prepaid Expenses	201,830	-	13,754	-
Nonspendable - Notes Receivable	-	206,775	-	-
Restricted - Capital Outlay	-	4,644,163	-	-
Restricted - Special Education	-	-	703,457	-
Restricted - Pension Tax	-	-	-	937,068
Restricted - Debt Service	-	-	-	-
Restricted - Capital Projects	-	-	-	-
Unassigned	3,926,263	-	-	-
Total Fund Balances	4,128,093	4,850,938	717,211	937,068
Total Liabilities and Fund Balances	\$ 7,949,915	\$ 6,358,440	\$ 1,576,802	\$ 1,091,136

The accompanying notes are an integral part of this statement.

Bond Redemption Fund	QSCB Redemption Fund	Capital Projects Fund	Total Governmental Funds
\$ 46,411	\$ 93,456	\$ 1,090,170	\$ 12,269,252
77,722	-	-	5,343,832
1,932	-	-	66,420
-	-	-	7,295
-	-	-	206,775
-	-	-	176,826
-	-	-	215,584
<u>\$ 126,065</u>	<u>\$ 93,456</u>	<u>\$ 1,090,170</u>	<u>\$ 18,285,984</u>

\$ -	\$ -	\$ 384,663	\$ 1,228,908
-	-	-	285,676
77,768	-	-	5,290,830
<u>77,768</u>	<u>-</u>	<u>384,663</u>	<u>6,805,414</u>

-	-	-	215,584
-	-	-	206,775
-	-	-	4,644,163
-	-	-	703,457
-	-	-	937,068
48,297	93,456	-	141,753
-	-	705,507	705,507
-	-	-	3,926,263
<u>48,297</u>	<u>93,456</u>	<u>705,507</u>	<u>11,480,570</u>
<u>\$ 126,065</u>	<u>\$ 93,456</u>	<u>\$ 1,090,170</u>	<u>\$ 18,285,984</u>

SPEARFISH SCHOOL DISTRICT NO. 40-2

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO GOVERNMENT-WIDE
STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balances - Governmental Funds	\$ 11,480,570
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	29,903,710
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Long-term liabilities, including general obligation bonds, capital outlay certificates payable, accrued leave payable, and early retirement payable are not due in the current period and, therefore, are not reported in the funds.	(14,217,881)
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Bond costs are capitalized on the Statement of Activities as deferred charges and amortized over the life of the bonds. These costs were expended in the governmental funds.	170,052
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Assets such as delinquent taxes receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	66,420
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Net Assets - Governmental Funds	\$ 27,402,871
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The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Bond Redemption Fund
REVENUES					
<i>Revenue from Local Sources:</i>					
Taxes:					
Ad Valorem Taxes	\$ 5,922,787	\$ 3,141,199	\$ 1,465,913	\$ 314,156	\$ 253,499
Prior Years' Ad Valorem Taxes	46,287	21,938	10,238	2,194	2,668
Gross Receipts Taxes	186,739	-	-	-	-
Penalties and Interest on Taxes	12,983	5,978	2,790	598	709
Tuition and Fees:					
Regular Day School Tuition	23,680	-	-	-	-
Earnings on Interest-Bearing Accounts:					
Interest Earned	10,343	24,943	3,833	566	609
Co-Curricular Activities:					
Admissions	35,639	-	-	-	-
Pupil Organization Memberships	11,195	-	-	-	-
Other Local Revenue:					
Rentals	14,665	-	-	-	-
Contributions and Donations	100	-	-	-	-
Other	117,723	108,018	2,047	-	-
<i>Revenue from Intermediate Sources:</i>					
County Sources:					
County Apportionment	282,084	-	-	-	-
<i>Revenue from State Sources:</i>					
Grants-in-Aid:					
Unrestricted Grants-in-Aid	3,254,512	-	-	-	-
Restricted Grants-in-Aid	-	-	254,174	-	-
Other State Revenue	-	-	4,736	-	-
<i>Revenue from Federal Sources:</i>					
Grants-in-Aid:					
Unrestricted Grants-in-Aid					
Received from Federal					
Government Through State	64,102	-	-	-	-
Restricted Grants-in-Aid					
Received from Federal					
Government Through State	1,261,523	-	841,389	-	-
Other Federal Revenue	261,886	-	-	-	-
Total Revenues	11,506,248	3,302,076	2,585,120	317,514	257,485

QSCB Redemption Fund	Capital Projects Fund	Total Governmental Funds
\$ -	\$ -	\$ 11,097,554
-	-	83,325
-	-	186,739
-	-	23,058
-	-	23,680
-	71,082	111,376
-	-	35,639
-	-	11,195
-	-	14,665
-	-	100
-	-	227,788
-	-	282,084
-	-	3,254,512
-	-	254,174
-	-	4,736
-	-	64,102
-	-	2,102,912
-	-	261,886
-	71,082	18,039,525

SPEARFISH SCHOOL DISTRICT NO. 40-2

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Bond Redemption Fund
<u>EXPENDITURES</u>					
<i>Instruction:</i>					
Regular Programs:					
Elementary	2,459,897	126,938	-	-	-
Middle/Junior High School	1,537,452	14,814	-	-	-
High School	1,929,010	70,399	-	-	-
Class Size Reduction	131,860	-	-	-	-
Special Programs:					
Programs for Special Education	-	8,610	1,881,630	-	-
Culturally Different	26,545	-	-	-	-
Educationally Deprived	512,859	-	-	-	-
<i>Support Services:</i>					
Pupils:					
Attendance and Social Work	13,763	-	-	-	-
Guidance	381,655	-	-	-	-
Health Services	47,953	-	-	-	-
Psychological	-	-	92,981	-	-
Speech Pathology	-	-	216,123	-	-
Student Therapy Services	-	-	143,185	-	-
Instructional Staff:					
Improvement of Instruction	78	277,881	-	-	-
Educational Media	361,309	262,557	-	-	-
General Administration:					
Board of Education	93,002	-	-	-	-
Executive Administration	180,930	-	-	-	-
School Administration:					
Office of the Principal	712,250	-	-	-	-
Business:					
Fiscal Services	227,297	6,558	-	-	-
Facilities Acquisition and Construction	-	287,894	-	-	-
Operation and Maintenance of Plant	1,487,671	24,889	-	-	-
Pupil Transportation	214,646	-	-	-	-
Central:					
Direction of Central Support Services	24,346	-	-	-	-
Special Education:					
Administrative Costs	-	-	138,017	-	-
Transportation Costs	-	-	30,361	-	-
Other Special Education Costs	-	-	11,700	-	-

QSCB Redemption Fund	Capital Projects Fund	Total Governmental Funds
-	-	2,586,835
-	-	1,552,266
-	-	1,999,409
-	-	131,860
-	-	1,890,240
-	-	26,545
-	-	512,859
-	-	13,763
-	-	381,655
-	-	47,953
-	-	92,981
-	-	216,123
-	-	143,185
-	-	277,959
-	-	623,866
-	-	93,002
-	-	180,930
-	-	712,250
-	-	233,855
-	-	287,894
-	6,215	1,518,775
-	-	214,646
-	-	24,346
-	-	138,017
-	-	30,361
-	-	11,700

SPEARFISH SCHOOL DISTRICT NO. 40-2

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Bond Redemption Fund
EXPENDITURES (Continued)					
<i>Community Services:</i>					
Other	13,709	-	-	-	-
<i>Non-programmed Charges:</i>					
Early Retirement	-	-	-	114,344	-
<i>Debt Service:</i>					
Principal (Note 7)	-	975,000	-	-	320,000
Interest	-	618,957	-	-	8,160
<i>Co-Curricular Activities:</i>					
Male Activities	183,291	-	-	-	-
Female Activities	157,054	-	-	-	-
Combined Activities	178,891	77,205	-	-	-
Capital Outlay	-	81,170	-	-	-
Total Expenditures	10,875,468	2,832,872	2,513,997	114,344	328,160
 Excess of Revenue Over (Under)					
Expenditures	630,780	469,204	71,123	203,170	(70,675)
 Other Financing Sources					
Transfers In (Note 11)	75,000	145,421	-	-	-
Transfers Out (Note 11)	(145,421)	(178,451)	-	-	-
Sale of Capital Assets	-	206,775	-	-	-
Total Other Financing Sources	(70,421)	173,745	-	-	-
 Net Change in Fund Balances	560,359	642,949	71,123	203,170	(70,675)
 Fund Balance -- June 30, 2010	3,567,734	4,207,989	646,088	733,898	118,972
 Fund Balance -- June 30, 2011	\$ 4,128,093	\$ 4,850,938	\$ 717,211	\$ 937,068	\$ 48,297

The accompanying notes are an integral part of this statement.

QSCB Redemption Fund	Capital Projects Fund	Total Governmental Funds
-	-	13,709
-	-	114,344
-	-	1,295,000
84,995	-	712,112
-	-	183,291
-	-	157,054
-	-	256,096
-	6,748,617	6,829,787
84,995	6,754,832	23,504,668
(84,995)	(6,683,750)	(5,465,143)
178,451	-	398,872
-	-	(323,872)
-	-	206,775
178,451	-	281,775
93,456	(6,683,750)	(5,183,368)
-	7,389,257	16,663,938
\$ 93,456	\$ 705,507	\$ 11,480,570

SPEARFISH SCHOOL DISTRICT NO. 40-2

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Net Change in Fund Balances - Total Governmental Funds \$ (5,183,368)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 6,475,338

In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be available. This amount reflects the application of both the application period and availability criteria. 19,051

Governmental funds report notes receivable as revenue when measurable and available, but the Statement of Activities includes notes receivable as revenue when earned (Note 3). (206,672)

Bond costs are capitalized on the Statement of Activities as deferred charges and amortized over the life of the refunded bonds. These costs were expensed in the governmental funds. 17,401

Governmental funds recognize expenditures for amounts of compensated absences and early retirement benefits actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the Statement of Activities, expenses for these benefits are recognized when the employees earn leave credits or elect to retire early. 37,324

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 1,295,000

Government-wide financial statements require other post employment benefits to be recorded on the accrual basis, whereas the fund statements require the modified accrual basis. (37,789)

Change in Net Assets of Governmental Activities \$ 2,416,285

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**PROPRIETARY FUND BALANCE SHEET
JUNE 30, 2011**

	Food Service Fund
ASSETS	
Current Assets:	
Cash	\$ 109,261
Inventory of Supplies	1,459
Inventory of Food Purchased for Resale	4,900
Inventory of Donated Food	5,670
Prepaid Expenses	3,162
Total Current Assets	124,452
Noncurrent Assets:	
Capital Assets (Note 6):	
Machinery and Equipment	284,635
Less Accumulated Depreciation	(255,544)
Total Noncurrent Assets	29,091
TOTAL ASSETS	\$ 153,543
LIABILITIES	
Current Liabilities:	
Other Current Liabilities	\$ 25
NET ASSETS	
Invested in Capital Assets	29,091
Unrestricted Net Assets	124,427
Total Net Assets	153,518
TOTAL LIABILITIES AND NET ASSETS	\$ 153,543

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**PROPRIETARY FUND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

	Food Service Fund
Operating Revenue	
<i>Sales:</i>	
To Pupils	\$ 273,041
To Adults	33,737
A La Carte	400
Total Operating Revenue	307,178
Operating Expenses	
Salaries	243,207
Employee Benefits	56,584
Purchased Services	5,574
Supplies	4,538
Cost of Sales - Purchased Food	207,038
Cost of Sales - Donated Food	40,709
Depreciation - Local Funds	6,320
Total Operating Expenses	563,970
Operating Loss	(256,792)
Nonoperating Revenue	
<i>Local Sources:</i>	
Interest Earnings	1,903
Other Local Revenue	509
<i>Federal Sources:</i>	
Cash Reimbursements	247,964
Donated Food	35,438
Total Nonoperating Revenue	285,814
Income before Transfers	29,022
Transfer Out (Note 11)	(75,000)
Change in Net Assets	(45,978)
Net Assets -- June 30, 2010	199,496
Net Assets -- June 30, 2011	\$ 153,518

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**PROPRIETARY FUND STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Food Service Fund</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 307,178
Payments to Suppliers	(218,613)
Payments to Employees	(299,791)
Net Cash Flows Used in Operating Activities	(211,226)
Cash Flows Provided by Noncapital Financing Activities:	
Other Local Revenue	509
Federal Operating Subsidies	247,964
Transfer to General Fund	(75,000)
Net Cash Flows Provided by Noncapital Financing Activities	173,473
Cash Flows Provided by Investing Activities:	
Cash Received for Interest	1,903
Net Decrease in Cash During the Fiscal Year	(35,850)
Cash -- June 30, 2010	145,111
Cash -- June 30, 2011	\$ 109,261
Reconciliation of Operating Loss to Net Cash Flows Used in Operating Activities	
Operating Loss	\$ (256,792)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</i>	
Cost of Sales - Donated Food	40,709
Depreciation Expense	6,320
<i>Change in Assets:</i>	
Inventories	1,699
Prepaid Expenses	(3,162)
Net Cash Flows Used in Operating Activities	\$ (211,226)
Noncash Investing, Capital and Financing Activities:	
Value of Commodities Received	\$ 35,438

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011

	Private-Purpose Trust Fund	Agency Funds
<u>ASSETS</u>		
Cash	\$ 103,222	\$ 328,340
<u>LIABILITIES</u>		
Amounts Held for Others	-	\$ 328,340
<u>NET ASSETS</u>		
Reserved for Scholarships	\$ 103,222	

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Private-Purpose Trust Fund</u>
ADDITIONS	
Interest Earnings	\$ 1,774
DEDUCTIONS	
Scholarships Awarded	1,400
Change in Net Assets	374
Net Assets - June 30, 2010	102,848
Net Assets - June 30, 2011	\$ 103,222

The accompanying notes are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The reporting entity of Spearfish School No. 40-2 (the District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The funds included in this report are controlled by or dependent upon the District's Board of Education. The District participates in a cooperative service unit with 11 other school districts. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are disclosed in these notes because of the nature of their relationship with the District. See Note 8 entitled "Joint Venture" for specific disclosures. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments.

b. Basis of Presentation

Government-wide Statements:

The Statement of Net Assets and the Statement of Activities display information about the primary government of the District. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Net Assets reports all financial and capital resources, in a balance sheet form (assets equal liabilities plus net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, propriety, and fiduciary. An emphasis is placed on major funds within the governmental and propriety categories. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least five percent of the corresponding total of all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes. The Capital Outlay, Special Education, and Pension Tax Funds are the special revenue funds maintained by the District.

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the acquisition of or additions to real property, plant or equipment, textbooks, and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund - A fund established by SDCL 13-37-16 to account for the costs associated with the special education of children in need of special and prolonged assistance who reside within the District. This fund is financed by grants and property taxes. This is a major fund.

Pension Tax Fund - A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is a major fund.

Debt Service Fund - Debt Service Funds are used to account for resources for, and the payment of, general long-term debt principal, interest, and related costs. There are two debt service funds.

Bond Redemption Fund - A fund established by SDCL 13-16-13 to account for the proceeds of special property taxes restricted to use for the payment of principal and interest on general obligation bonded debt. This is a major fund.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(I) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

Qualified School Construction Bond Fund -- A fund established to account for the payment of interest on qualified school construction bonded debt, as well as the establishment and maintenance of a bond sinking fund. This fund is a major fund.

Capital Projects Fund -- A fund was established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds for individuals, private organizations, or other governments). This fund is financed by debt proceeds. This is a major fund.

Proprietary Fund:

Enterprise Funds - Enterprise Funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Food Service Fund is the only enterprise fund maintained by the District.

Food Service Fund - A fund established to record the financial transactions related to the K-12 food services operation. This fund is financed by user charges and grants. This is a major fund.

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

Private-Purpose Trust Funds - Private-Purpose Trust Funds are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The District maintains one private-purpose trust fund, which is a scholarship fund that was established by a donation made to the District for payment of scholarships to District students.

Agency Funds - Agency Funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The District maintains a variety of Agency Funds. Agency Funds are established to account for the monies earned by student organizations for various expenditures. Another Agency Fund accounts for the monies contributed by employees for health and dependent care expenses.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned, and expenses and related liabilities are recorded when an obligation is incurred.

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the District, the length of that cycle is 60 days.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All propriety funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Enterprise funds and business-type activities do not apply FASB Statements and Interpretations issued after November 30, 1989.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

d. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or propriety fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) for land, buildings, improvements, and equipment are all set at \$5,000. The depreciation method used for buildings and machinery and equipment is straight-line. Land is not depreciated.

The estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

Buildings	50-100 years
Machinery and Equipment	7-30 years

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition. Capital assets used in the proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

e. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of compensated absences and early retirement payable, other post-employment benefits, general obligation bonds, and general obligation certificates (see Note 7).

Compensated absences consist of annual vacation and sick leave earned. Annual leave is earned by full-time, 12-month employees at the rate of 10 to 20 days per year, depending upon years of service. Upon termination, employees are entitled to receive compensation for their current fiscal year accrual at their current rate of pay. Based on specific qualifications, any previous years' balances will also be compensated.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

e. Long-Term Liabilities (Continued)

Sick leave is earned by the employees at a rate equal to the number of hours worked in a day times the number of months worked for all full-time 12-, 10-, and 9-month employees and part-time 12- and 10-month employees; the number of days accumulated is not limited. Upon termination, some employees are entitled to receive compensation for their accrued sick leave balance. Those with six years of service or more will receive compensation at the rate of \$15.00 per day of accumulated leave.

Full-time teachers and administrators may participate in an early retirement program. Upon meeting certain criteria and board approval, terminating eligible employees may receive cash benefits equal to their current salary times five percent times their years of service (maximum of 20 years). The benefit may be paid in one payment or multiple payments. A long-term liability is recognized for the total benefits payable in future periods for 10 employees who have applied and been approved for separation (see Note 7). No discount rate was used to estimate the effect of making the cash payments over a three year period, as it would be insignificant.

Funding for compensated absences, other post-employment benefits, and early retirement are expended in the general fund and the pension tax fund.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for the proprietary fund long-term debt is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

f. Program Revenues

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions -- These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets used in a particular program.

g. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

h. Inventory

Inventory of the Enterprise Fund and business-type activities is valued at the lower of cost or market value. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

Inventory in the Enterprise Fund and business-type activities consists of food and supplies held for consumption. Inventory is recorded at the time individual inventory items are purchased and expensed when used.

As of June 30, 2011, no significant amounts of supplies inventory were on hand for the governmental funds.

i. Deposits and Investments

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes.

Deposits – The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts that exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating, which may not be less than "AA" or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2011, the District's cash and investments consisted only of checking, savings, and certificates of deposit. All of these accounts are insured or collateralized in the District's name.

Assignment of Investment Income:

State law allows income from deposits to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from deposits to the fund making the investment.

Interest Rate Risk:

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

i. Deposits and Investments (Continued)

Credit Risk:

State law limits eligible investments for the District as discussed above. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk:

The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2011, none of the District's deposits were exposed to custodial credit risk.

Concentration Risk:

The District places no limit on the amount that may be invested in any one issuer.

j. Deferred Revenue

Under the modified accrual basis of accounting, receivables may be measurable but not available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. These consist primarily of property tax revenue (Note 2).

k. Cash and Cash Equivalents

The District pools its cash resources for depositing and investing purposes. The enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

l. Equity Classifications

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(1) Summary of Significant Accounting Policies (Concluded)

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned, or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

m. Application of Net Assets

With regard to the District's proprietary fund, it is the District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

n. Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which was implemented in the current year, the District classifies governmental fund balance as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed -- includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the School Board, Superintendent, or Business Manager.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

With regard to the District's governmental fund, the District uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar-for-dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(2) Property Taxes

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the District's taxes and remits them to the District.

District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Current year property taxes receivable, which are not available as a resource that can be used to finance the current year's appropriations and therefore are not susceptible to accrual, have been deferred and are not reported as revenue.

(3) Notes Receivable

The City of Spearfish purchased land from the District in July 2009 totaling \$575,000. The remaining **\$206,775** is due in July 2011, bearing interest at 2.25 percent. Subsequent to year-end, the balance has been collected in full.

(4) Due from Other Governments

Amounts due from state governments include grant reimbursements due from the State of South Dakota in the amount of **\$176,826**.

(5) Retirement Plan -- South Dakota Retirement System

The following summary description of participation in the South Dakota Retirement System (the System) is provided for general information purposes. Participants should refer to South Dakota Codified Law (SDCL) 3-12 and employee handbooks for more complete information.

All employees, working more than 20 hours per week during the school year, participate in the System, a cost sharing, multiple employer, public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The System provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

Covered employees (Class A Members) are required by state statute to contribute six percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the System for the fiscal years ended June 30, 2011, 2010, and 2009 were **\$530,216**, **\$539,411**, and **\$502,917** respectively, equal to the required contributions each year.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(6) Changes in Capital Assets

Changes in capital assets used in governmental activities were as follows during the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Transfers/ Retirements	Balance June 30, 2011
Governmental Activities				
<i>Capital Assets, not Depreciated</i>				
Land	\$ 1,645,272	\$ -	\$ -	\$ 1,645,272
Construction in Progress	1,984,836	6,748,618	-	8,733,454
<i>Capital Assets, Depreciated</i>				
Buildings	23,675,151	36,724	-	23,711,875
Outdoor Equipment	65,385	-	-	65,385
Equipment -- Local Funds	2,308,236	44,445	-	2,352,681
	29,678,880	6,829,787	-	36,508,667
<i>Less Accumulated Depreciation</i>				
Buildings	5,109,092	255,403	-	5,364,495
Outdoor Equipment	37,705	3,269	-	40,974
Equipment -- Local Funds	1,103,711	95,777	-	1,199,488
	6,250,508	354,449	-	6,604,957
Governmental Activities Capital Assets, Net	\$ 23,428,372	\$ 6,475,338	\$ -	\$ 29,903,710

Depreciation expense was charged to functions within governmental activities as follows:

Instruction	\$ 281,659
Support Services	48,876
Co-curricular Activities	23,914
Total Depreciation Expense	\$ 354,449

Changes in capital assets used in business-type activities were as follows during the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Transfers/ Retirements	Balance June 30, 2011
Business-Type Activities				
Machinery and Equipment	\$ 284,635	\$ -	\$ -	\$ 284,635
Less Accumulated Depreciation	(249,224)	(6,320)	-	(255,544)
Business -Type Activity Capital Assets, Net	\$ 35,411	\$ (6,320)	\$ -	\$ 29,091

As of June 30, 2011, there are \$467,709 of commitments associated with construction projects in progress. Completion of such projects will be funded through proceeds already received from general obligation bonds.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(7) Long-Term Debt

The following is a summary of the changes in long-term liabilities during the year ended June 30, 2011:

	2007 General Obligation Certificates	2005 General Obligation Bonds	2010 General Obligation Bonds BAB	2010 General Obligation Bonds QSCB	2010 General Obligation Bonds QRZEDB
Governmental Activities					
June 30, 2010 Balance	\$ 3,655,000	\$ 320,000	\$ 7,955,000	\$ 1,500,000	\$ 1,545,000
Retired Amounts	(505,000)	(320,000)	(395,000)	-	(75,000)
Compensated Absences Earned	-	-	-	-	-
Compensated Absences Used	-	-	-	-	-
New Retirees Approved	-	-	-	-	-
Payments to Retirees	-	-	-	-	-
OPEB Additions	-	-	-	-	-
OPEB Reductions	-	-	-	-	-
June 30, 2011 Balance	\$ 3,150,000	\$ -	\$ 7,560,000	\$ 1,500,000	\$ 1,470,000
Due Within One Year	\$ 525,000	\$ -	\$ 320,000	\$ -	\$ 65,000

	Early Retirement Payable	Compensated Absences Payable	Net OPEB Obligation	Total
Governmental Activities				
June 30, 2010 Balance	\$ 247,656	\$ 179,081	\$ 110,679	\$ 15,512,416
Retired Amounts	-	-	-	(1,295,000)
Compensated Absences Earned	-	81,024	-	81,024
Compensated Absences Used	-	(66,883)	-	(66,883)
New Retirees Approved	56,083	-	-	56,083
Payments to Retirees	(107,548)	-	-	(107,548)
OPEB Additions	-	-	72,404	72,404
OPEB Reductions	-	-	(34,615)	(34,615)
June 30, 2011 Balance	\$ 196,191	\$ 193,222	\$ 148,468	\$ 14,217,881
Due Within One Year	\$ 113,120	\$ 193,222	\$ -	\$ 1,216,342

The compensated absences and other post-employment benefits will be paid from the General Fund, and the early retirement payable will be paid from the General Fund and the Pension Tax Fund.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(7) Long-Term Debt (Continued)

Long-term liabilities, other than compensated absences, early retirement payable, and net OPEB obligation (Note 10), are comprised of the following:

General Obligation Bonds:

2007 General Obligation Certificates; mature December 2016; semi-annual payments, bearing interest at fixed rates from 3.55 to 3.90 percent; paid from the Capital Outlay Fund. \$ 3,150,000

2010 General Obligation Taxable Certificates (Build America Bonds - Direct Pay); mature December 2029; semi-annual payments; bearing interest at fixed rates from 0.90 to 6.00 percent; paid from the Capital Outlay Fund. The District receives a credit from the Federal Government for 35 percent of the interest paid on the certificates. 7,560,000

2010 Limited Tax General Obligation Taxable Certificates (Qualified School Construction Bonds - Direct Pay); mature December 2026; semi-annual, interest-only payments with a balloon payment in December 2026; bearing interest at 5.50 percent; paid from the QSCB Redemption Fund. The certificates require sinking fund deposits to generate a total balance of the principal due on maturity (a). The District receives a credit from the Federal Government for 100 percent of the interest paid on the certificates. 1,500,000

2010 Limited Tax General Obligation Taxable Certificates (Qualified Recovery Zone Economic Development Bonds); mature December 2029; semi-annual payments; bearing interest at 1.10 to 6.00 percent; paid from the Capital Outlay Fund. The District receives a credit from the Federal Government for 45 percent of the interest paid on the certificates. 1,470,000

\$ 13,680,000

(a) The Qualified School Construction Bonds sinking fund balance required at June 30, 2011 was \$90,909, which is included in cash and investments in the QSCB Redemption Fund.

The annual requirements to amortize all debt outstanding as of June 30, 2011, excluding compensated absences, early retirement, and OPEB, are as follows:

Year Ending June 30,	Principal	General Obligation Interest	Early Retirement	Totals
2012	\$ 910,000	\$ 605,331	\$ 113,120	\$ 1,628,451
2013	935,000	579,458	83,071	1,597,529
2014	955,000	550,383	-	1,505,383
2015	985,000	518,480	-	1,503,480
2016	2,435,000	2,128,606	-	4,563,606
2017-2021	3,065,000	1,607,110	-	4,672,110
2022-2026	2,035,000	167,720	-	2,202,720
2027-2029	2,360,000	400,729	-	2,760,729
	\$ 13,680,000	\$ 6,557,817	\$ 196,191	\$ 20,434,008

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

(8) Joint Venture

The District participates in the Black Hills Special Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special educational services to the member school districts. During the year ended June 30, 2011, the District paid **\$585,096** for services provided by the co-op.

The members of the co-op and their relative percentage participation in the co-op are as follows:

Spearfish School District No. 40-2	8.33%
Lead-Deadwood School District No. 40-1	8.33%
Oelrichs School District No. 23-3	8.33%
Meade School District No. 46-1	8.33%
Rapid City Area School District No. 51-4	8.33%
Belle Fourche School District No. 9-1	8.33%
Custer School District No. 16-1	8.33%
Douglas School District No. 51-1	8.33%
Edgemont School District No. 23-1	8.33%
Haakon School District No. 27-1	8.33%
Hill City School District No. 51-2	8.33%
Hot Springs School District No. 23-2	8.33%

The co-op's governing board is composed of one representative from each member school district, who is a school board member. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The District retains no equity in the net assets of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from Black Hills Special Services Cooperative. At June 30, 2011, this joint venture had total fund equity of \$3,760,680 (unaudited) and long-term debt of \$755,436 (unaudited).

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2011, the District managed its risks as follows:

Property/Liability Insurance

The District joined the Associated School Boards of South Dakota Property Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the District. The District pays an annual premium to the pool to provide coverage for automobile and school bus, general liability, property damage, and professional liability errors and omissions. The premiums are accrued based on the ultimate cost of the coverage of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(9) Risk Management (Continued)

The agreement with the ASBSD-PLF provides that the above coverage will be provided to a \$6,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The District carries a \$500 deductible for the property damage and commercial automobile coverage, a \$5,000 deductible for non-monetary professional liability, and a monetary deductible totaling \$10,000 for the school leader's professional liability coverage.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Workmen's Compensation

The District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota (ASBSD) Worker's Compensation Fund Pool (the Fund), which provides workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for the coverage, and to develop a comprehensive loss control program. The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy. The District's premiums are accrued based on the ultimate cost of the experience to date of the Fund members.

The District is responsible for payment of a premium to the insurance pool along with other pool participants. The District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual per incident. The District does not carry additional insurance to cover claims in excess of the upper limit.

Health Insurance

The District purchases health insurance for its employees from a commercial insurance carrier. The District pays for a portion of qualified employees' health insurance premiums as an employee benefit. The District covers the difference between a \$750/\$1,250/\$2,000 deductible selected by the employee and the commercial insurance carrier's deductible of \$7,500. In addition, certain employees who elect not to participate in the District's health insurance plan receive a cash option. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits

The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(10) Other Post-Employment Benefits (OPEB) Plan

Plan Description

The Spearfish School District Other Post-Employment Benefits (OPEB) plan is a single-employer defined benefit healthcare plan administrated by the Spearfish School District. The Plan provides medical insurance benefits to eligible retirees and their spouses as permitted by SDCL 6-1-16. Benefit provisions were established and may be amended during the negotiated agreement process with the District certified staff and School Board. The health plan does not issue separately stated stand-alone financial statements.

Funding Policy

A teacher or administrator who retires from the District on or after the age of 55 and with at least five years of service with the District may be eligible for retiree health insurance coverage. Coverage ceases when the retiree attains the age of 65 or becomes eligible for Medicare except for COBRA continuation if elected. The retiree is responsible for 100 percent of the full active premium rates for either single or family coverage. SDCL 6-1-16 specifically allows any municipality, county or school district to provide health insurance for retiring employees and their immediate families.

Because the State prohibits local governments from separately rating active employees and retirees, the District charges both groups an equal, blended premium rate for single or family coverage. Although both groups are charged the same rate, GAAP requires the actuarial amounts to be calculated using age-adjusted premiums that approximate costs for retirees separately from those for active employees. The use of age-adjusted premiums results in the inclusion of an implicit rate subsidy of the benefit costs to retirees by the District.

Currently, there are 244 active participants and 8 retirees who are participating in the plan. Because the District does not use a trust fund to administer the financing of other postemployment benefits, no separate financial statements are required.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The District's annual OPEB cost, the percentage of annual OPEB costs contributed, and the net OPEB obligation for the year ended June 30, 2011, were as follows:

Annual Required Contribution	\$ 74,218
Interest on Net OPEB Obligation	4,981
Adjustment to Annual Required Contribution	<u>(6,795)</u>
Annual OPEB Cost	72,404
Contributions Made	<u>(34,615)</u>
Change in Net OPEB Obligation	37,789
Net OPEB Obligation - Beginning of Year	110,679
Net OPEB Obligation - End of Year	<u>\$ 148,468</u>
Percentage Contributed	47.81%

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$657,025. The annual payroll for active employees covered by the plan in the actuarial valuation for the 2010-2011 fiscal year was \$8,483,306 for a ratio of the UAAL to covered payroll of 7.70 percent.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2011**

(10) Other Post-Employment Benefits (OPEB) Plan (Continued)

Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The projected unit credit actuarial cost method was used in the July 1, 2010 valuation. The actuarial assumptions included a 4.5 percent investment rate of return. The initial healthcare cost trend rate was 8.0 percent reduced by one percent each year to an ultimate rate of five percent. Both the rate of return and the healthcare cost trend rate include an assumed inflation rate of three percent. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years. The remaining amortization period at June 30, 2011 is 28 years.

(11) Individual Fund Interfund Transactions

During the fiscal year, the following amounts were transferred between funds:

Fund	Transfer Out	Transfer In
General Fund	\$ 145,421	\$ 75,000
Capital Outlay Fund	178,451	145,421
Debt Service Fund	-	178,451
Food Service Fund	75,000	-

Transfers during the current year pertained to repayment of prior year general fund support to food service, transferring funds from capital outlay to debt service to make the QSCB debt payment, and transfer of interest credits from general to capital outlay pertaining to the QSCB bonds.

REQUIRED SUPPLEMENTARY INFORMATION

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 5,795,864	\$ 5,795,864	\$ 5,922,787	\$ 126,923
Prior Years' Ad Valorem Taxes	65,000	65,000	46,287	(18,713)
Gross Receipts Taxes	165,000	165,000	186,739	21,739
Penalties and Interest on Taxes	16,000	16,000	12,983	(3,017)
Tuition and Fees:				
Regular Day School Tuition	14,000	14,000	23,680	9,680
Summer Fee Tuition	2,000	2,000	-	(2,000)
Earnings on Interest-Bearing Accounts:				
Interest Earned	14,000	14,000	10,343	(3,657)
Co-Curricular Activities:				
Admissions	40,000	40,000	35,639	(4,361)
Pupil Organization Memberships	13,000	13,000	11,195	(1,805)
Rentals	1,000	1,000	-	(1,000)
Other Local Revenue:				
Rentals	15,000	15,000	14,665	(335)
Contributions and Donations	15,000	15,000	100	(14,900)
Other	80,000	80,000	117,723	37,723
<i>Revenue from Intermediate Sources:</i>				
County Sources:				
County Apportionment	405,000	405,000	282,084	(122,916)
<i>Revenue from State Sources:</i>				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	3,773,006	3,773,006	3,254,512	(518,494)
<i>Revenue from Federal Sources:</i>				
Grants-in-Aid:				
Unrestricted Grants-in-Aid Received from Federal Government Through State	57,510	57,510	64,102	6,592
Restricted Grants-in-Aid Received from Federal Government Through State	699,528	699,528	1,261,523	561,995
Other Federal Revenue	-	-	261,886	261,886
Total Revenues	11,170,908	11,170,908	11,506,248	335,340

EXPENDITURES

Instruction:

Regular Programs:

Elementary	2,518,686	2,518,686	2,459,897	58,789
Middle/Junior High School	1,578,531	1,578,531	1,537,452	41,079
High School	1,936,352	1,936,352	1,929,010	7,342
Class Size Reduction	144,912	144,912	131,860	13,052

SPEARFISH SCHOOL DISTRICT NO. 40-2

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
EXPENDITURES (Continued)				
<i>Instruction (Continued):</i>				
Special Programs:				
Culturally Different	26,935	26,935	26,545	390
Educationally Deprived	522,338	572,838	512,859	59,979
<i>Support Services:</i>				
Pupils:				
Attendance and Social Work	134,000	134,000	13,763	120,237
Guidance	387,008	387,008	381,655	5,353
Health Services	56,017	56,017	47,953	8,064
Instructional Staff:				
Improvement of Instruction	-	-	78	(78)
Educational Media	466,712	466,712	361,309	105,403
General Administration:				
Board of Education	142,383	142,383	93,002	49,381
Executive Administration	187,147	187,147	180,930	6,217
School Administration:				
Office of the Principal	735,254	735,254	712,250	23,004
Other	4,600	4,600	-	4,600
Business:				
Fiscal Services	226,480	226,480	227,297	(817)
Operation and Maintenance of Plant	1,516,514	1,516,514	1,487,671	28,843
Pupil Transportation	233,000	233,000	214,646	18,354
Central:				
Direction of Central Support Services	29,730	29,730	24,346	5,384
<i>Community Services:</i>				
Other	8,047	8,047	13,709	(5,662)
<i>Co-Curricular Activities:</i>				
Male Activities	168,677	168,677	183,291	(14,614)
Female Activities	166,432	166,432	157,054	9,378
Combined Activities	207,470	207,470	178,891	28,579
Total Expenditures	11,397,225	11,447,725	10,875,468	572,257
Excess of Revenue Over (Under) Expenditures	(226,317)	(276,817)	630,780	907,597
Other Financing Sources (Uses)				
Transfers In	-	-	75,000	75,000
Transfers Out	-	-	(145,421)	(145,421)
Total Financing Uses	-	-	(70,421)	(70,421)
Net Change in Fund Balance	(226,317)	(276,817)	560,359	837,176
Fund Balance -- June 30, 2010	3,567,734	3,567,734	3,567,734	-
Fund Balance -- June 30, 2011	\$ 3,341,417	\$ 3,290,917	\$ 4,128,093	\$ 837,176

The accompanying notes to required supplementary information are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 3,097,091	\$ 3,097,091	\$ 3,141,199	\$ 44,108
Prior Years' Ad Valorem Taxes	17,500	17,500	21,938	4,438
Penalties and Interest on Taxes	5,100	5,100	5,978	878
Earnings on Interest-Bearing Accounts:				
Interest Earned	15,000	15,000	24,943	9,943
Other Local Revenue:				
Other	-	-	108,018	108,018
<i>Revenue from Federal Sources:</i>				
Other Federal Revenue	(264,876)	(264,876)	-	264,876
Total Revenues	2,869,815	2,869,815	3,302,076	432,261
EXPENDITURES				
<i>Instruction:</i>				
Regular Programs:				
Elementary	128,000	128,000	126,938	1,062
Middle/Junior High School	71,000	71,000	14,814	56,186
High School	94,000	94,000	70,399	23,601
Special Programs:				
Programs for Special Education	16,000	47,000	16,635	30,365
<i>Support Services:</i>				
Instructional Staff:				
Improvement of Instruction	235,000	235,000	277,881	(42,881)
Educational Media	313,500	313,500	262,557	50,943
Business:				
Fiscal Services	13,000	13,000	6,558	6,442
Facilities Acquisition and Construction	655,000	655,000	361,039	293,961
Operation and Maintenance of Plant	55,000	55,000	24,889	30,111
<i>Debt Service:</i>				
Principal	975,000	975,000	975,000	-
Interest	446,058	446,058	618,957	(172,899)
<i>Co-Curricular Activities:</i>				
Combined Activities	66,250	66,250	77,205	(10,955)
Total Expenditures	3,067,808	3,098,808	2,832,872	265,936

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
Net Change in Fund Balance	(197,993)	(228,993)	469,204	698,197
Other Financing Sources (Uses)				
Transfers In	-	-	145,421	145,421
Transfers Out	(179,022)	(179,022)	(178,451)	571
Sale of Capital Assets	200,000	200,000	206,775	(6,775)
Total Other Financing Sources	20,978	20,978	173,745	139,217
Net Change in Fund Balance	(177,015)	(208,015)	642,949	837,414
Fund Balance -- June 30, 2010	4,207,989	4,207,989	4,207,989	-
Fund Balance -- June 30, 2011	\$ 4,030,974	\$ 3,999,974	\$ 4,850,938	\$ 837,414

The accompanying notes to required supplementary information are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 1,435,275	\$ 1,435,275	\$ 1,465,913	\$ 30,638
Prior Years' Ad Valorem Taxes	10,000	10,000	10,238	238
Penalties and Interest on Taxes	2,200	2,200	2,790	590
Earnings on Interest-Bearing Accounts:				
Interest Earned	3,000	3,000	3,833	833
Other Local Revenue:				
Other	-	-	2,047	2,047
<i>Revenue from State Sources:</i>				
Grants -in-Aid:				
Restricted Grants-in-Aid	281,319	281,319	254,174	(27,145)
Other State Revenue	-	-	4,736	4,736
<i>Revenue from Federal Sources:</i>				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through State	741,687	741,687	841,389	99,702
Total Revenues	2,473,481	2,473,481	2,585,120	111,639
EXPENDITURES				
<i>Instruction:</i>				
Special Programs:				
Programs for Special Education	1,787,027	1,818,027	1,881,630	(63,603)
<i>Support Services:</i>				
Pupils:				
Psychological	90,132	90,132	92,981	(2,849)
Speech Pathology	214,884	214,884	216,123	(1,239)
Student Therapy Services	136,617	136,617	143,185	(6,568)
Special Education:				
Administrative Costs	124,803	124,803	138,017	(13,214)
Transportation Costs	21,400	21,400	30,361	(8,961)
Other Special Education Costs	8,040	8,040	11,700	(3,660)
Total Expenditures	2,382,903	2,413,903	2,513,997	(100,094)
Net Change in Fund Balance	90,578	59,578	71,123	211,733
Fund Balance -- June 30, 2010	646,088	646,088	646,088	-
Fund Balance -- June 30, 2011	\$ 736,666	\$ 705,666	\$ 717,211	\$ 211,733

The accompanying notes to required supplementary information are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PENSION TAX FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 309,309	\$ 309,309	\$ 314,156	\$ 4,847
Prior Years' Ad Valorem Taxes	2,100	2,100	2,194	94
Penalties and Interest on Taxes	-	-	598	598
Earnings on Interest-Bearing Accounts:				
Interest Earned	1,000	1,000	566	(434)
Total Revenues	312,409	312,409	317,514	5,105
EXPENDITURES				
<i>Non-programmed Charges:</i>				
Early Retirement	310,826	310,826	114,344	196,482
Total Expenditures	310,826	310,826	114,344	196,482
Net Change in Fund Balance	1,583	1,583	203,170	201,587
Fund Balance -- June 30, 2010	733,898	733,898	733,898	-
Fund Balance -- June 30, 2011	\$ 735,481	\$ 735,481	\$ 937,068	\$ 201,587

The accompanying notes to required supplementary information are an integral part of this statement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS FOR RETIREE HEALTH
INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actual Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2010	\$ -	\$ 657,025	\$ 657,025	0%	\$ 8,483,306	7.7%
7/1/2008	\$ -	\$ 595,391	\$ 595,391	0%	\$ 8,526,220	7.0%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
6/30/2011	\$ 72,404	47.81%
6/30/2010	78,606	29.64%
6/30/2009	79,367	29.36%

SPEARFISH SCHOOL DISTRICT NO. 40-2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2011

(1) Basis of Presentation

The Budgetary Comparison Schedule has been prepared on the budgetary basis of accounting. The Budgetary Comparison Schedule presents expenditures for capital outlay purposes within each function while the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances presents capital outlay expenditures as a separate function.

(2) Budgetary Legal Requirements

South Dakota Codified Law prescribes the budgetary procedures followed by the District as follows:

1. Prior to the first regular board meeting in May of each year, the School Board prepares a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when monies are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board. The District does not employ encumbrance accounting as an extension of formal budgetary integration.
10. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds, capital projects funds, and food service fund. Generally accepted accounting principles prescribe that budgetary information be presented for the general fund and major special revenue funds of the District only.

SINGLE AUDIT SECTION

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011**

Status of Prior Audit Findings and Recommendations:

Finding #07-2

The District made every attempt to record all year-end adjusting entries in reference to Finding #07-2. The finding is repeated in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as Finding #11-2.

Finding #07-3

The District has accepted the risk associated with Finding #07-3 regarding the preparation of the financial statements. The finding is repeated in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as Finding #11-1.

Finding #10-1

The District implemented the corrective action plan regarding semi-annual payroll certifications for the Title I and Special Education programs during fiscal year 2011; this finding has been resolved.

Finding #10-2

The District implemented the corrective action plan regarding highly qualified documentation for the Title program during fiscal year 2011; this finding has been resolved.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN
JUNE 30, 2011**

A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unqualified opinion on the financial statements of Spearfish School District No. 40-2 (the District).
2. Significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards. Both of the deficiencies are reported as material weaknesses.
3. No instances of noncompliance material to the District's financial statements were disclosed during the audit.
4. One significant deficiency disclosed during the audit of the major federal award programs is reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133. The deficiency is reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs expresses an unqualified opinion.
6. The audit findings related to the major federal award programs are reported in Part C of this schedule.
7. The programs tested as major programs (or clusters) were:
 - a. Special Education Cluster (CFDA #84.027, 84.173, 84.391, and 84.392)
 - c. Title I Programs Cluster (CFDA #84.010 and 84.389)
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The District was not determined to be a low-risk auditee.

B. FINDINGS -- FINANCIAL STATEMENT AUDIT

Significant Deficiencies -- Material Weakness in Internal Control

11-1 FINDING: Financial Statement Preparation:

Condition/Cause: As in prior years, we were requested to draft the audited financial statements, related footnote disclosures, and Schedule of Expenditures of Federal Awards (SEFA) as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the District's statements, footnotes, and SEFA, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for us to do with districts of your size.

Criteria and Effect: This deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the District's management.

Questioned Costs: None

SPEARFISH SCHOOL DISTRICT NO. 40-2

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN

(CONTINUED)

JUNE 30, 2011

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiencies -- Material Weakness in Internal Control (Continued)

11-1 FINDING: Financial Statement Preparation (Continued):

Recommendation: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's statements. We are satisfied that the appropriate steps have been taken to provide the District with complete financial statements. It is the responsibility of management and those charged with governance to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: The District will evaluate the risk associated with this condition. Craig Crosswait, Business Manager, is responsible for the corrective action plan for this finding.

11-2 FINDING: Internal Control over Significant Accounts:

Condition/Cause: During the course of our engagement, we proposed material audit adjustments. We recorded six adjustments with a net income effect that included adjusting IDEA Part B funding, retainage pertaining to construction in progress, inventory and corresponding cost of sales, capital assets, prepaid insurance, debt service expenditures, and self-insurance liabilities. Additionally, we recorded four reclassification entries with no effect on net income. Other entries were proposed as part of the audit, but were not recorded due to their overall insignificance to the financial statements.

Criteria and Effect: These adjustments were not identified as a result of the District's existing internal controls, and therefore, could have resulted in a material misstatement of the District's financial statements.

Questioned Costs: None

Recommendation: We recommend that management review the accounts described above at least annually and adjust them accordingly.

Response/Corrective Action Plan: The District will more thoroughly review end of the year adjustments to reflect the necessary changes. Craig Crosswait, Business Manager, is responsible for the corrective action plan for this finding.

C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT

Significant Deficiency -- Material Weakness in Internal Control

Finding 11-1 listed in Part B relates to both major federal award programs of the District, the Title I program cluster (CFDA #84.010 and 84.389) and the Special Education program cluster (CFDA #84.027, 84.173, 84.391, and 84.392). This finding relates to the reporting compliance requirement.

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

	CFDA Numbers	Amount
<i>U.S. Department of Agriculture:</i>		
Pass-Through the S.D. Department of Education:		
Child Nutrition Cluster:		
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	\$ 35,438
Cash Assistance:		
National School Lunch Program (Note 2)	10.555	244,112
Subtotal National School Lunch Program		279,550
Special Milk Program for Children (Note 2)	10.556	3,546
Total Child Nutrition Cluster		283,096
Pass-Through Lawrence County:		
School and Roads -- Grants to States (National Forest -- SDCL 41-16-14)	10.665	64,074
Total U.S. Department of Agriculture		347,170
<i>U.S. Department of the Interior:</i>		
Pass-Through the S.D. Department of Education:		
National Mineral Leasing (Note 1)	15.227	28
<i>U.S. Department of Education:</i>		
Pass-Through the S.D. Department of Education:		
Title I Cluster:		
Title I Programs -- Local Educational Agencies (Note 3)	84.010	371,650
ARRA Title I (Note 3)	84.389	138,043
Total Title I Cluster		509,693
Special Education Cluster:		
Special Education -- State Grants (P.L. 99-94-142) (Note 3)	84.027	418,331
Special Education -- Preschool Grants (P.L. 99-457) (Note 3)	84.173	18,290
ARRA IDEA 611 Part B (Note 3)	84.391	297,310
ARRA IDEA 619 PS (Note 3)	84.392	11,814
Total Special Education Cluster		745,745
Safe and Drug-Free Schools & Communities -- State Grants (Title IV)	84.186	5,375
Educational Technology State Grants (Title II Part D)	84.318	5,817
Improving Teacher Quality State Grants (Title II Part A)	84.367	133,783
Special Education - Grants for Infants and Families with Disabilities (IDEA Part C)	84.181	5,643
ARRA SFSF - State Fiscal Stabilization Fund - Education State Grant	84.394	221,276
Career and Technical Education	84.048	26,046
Education Jobs Fund	84.410	276,946
Total U.S. Department of Education		1,930,324
Total		\$ 2,277,522

SPEARFISH SCHOOL DISTRICT NO. 40-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

- Note 1: Federal reimbursements are not based upon specific expenditures; therefore, the amounts reported here represent cash received rather than federal expenditures.
- Note 2: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.
- Note 3: This program was tested as a major program.
- Note 4: The schedule of expenditures of federal awards is presented on the accrual basis of accounting.

OTHER REPORTS



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board
Spearfish School District No. 40-2
Spearfish, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District), Spearfish, South Dakota as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as Findings #11-1 and 11-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Department of Education, the South Dakota Legislature, the governing board and management of the District, and is not intended to be, and should not be, used by anyone other than those specified parties. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.


KETEL THORSTENSON, LLP
Certified Public Accountants

February 13, 2012



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

School Board
Spearfish School District No. 40-2
Spearfish, South Dakota

Compliance

We have audited the compliance of **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District), Spearfish, South Dakota, with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on each major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

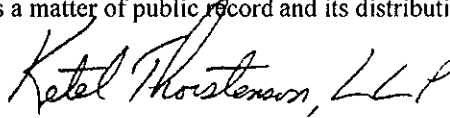
Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

School Board
Page Two

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as Finding #11-1 to be a material weakness.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Department of Education, the South Dakota Legislature, the governing board and management of the District, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

February 13, 2012